



# CPA-TEST<sup>Q&As</sup>

Certified Public Accountant Test: Auditing and Attestation, Business Environment and Concepts, Financial Accounting and Reporting, Regulation

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### QUESTION 1

How should the effect of a change in accounting estimate be accounted for?

- A. By restating amounts reported in financial statements of prior periods.
- B. By reporting pro forma amounts for prior periods.
- C. As a prior period adjustment to beginning retained earnings.
- D. In the period of change and future periods if the change affects both.

Correct Answer: D

Explanation:

Choice "d" is correct, a "change in accounting estimate" affects only the current and subsequent (future) periods, if the change affects both. It does not affect "prior periods," nor "retained earnings."

Choice "a" is incorrect. Restating prior years' financial statements is required when comparative financial statements are shown for prior period adjustments of "corrections of errors," "changes in entities," and changes in accounting principle.

Choices "b" and "c" are incorrect. A "change in accounting estimate" does not affect prior periods.

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### QUESTION 2

An oligopolist faces a "kinked" demand curve. This terminology indicates that:

- A. When an oligopolist lowers its price, the other firms in the oligopoly will match the price reduction, but if the oligopolist raises its price, the other firms will ignore the price change.
- B. An oligopolist faces a non-linear demand for its product, and price changes will have little effect on demand for that product.
- C. An oligopolist can sell its product at any price, but after the "saturation point," another oligopolist will lower its price and, therefore, shift the demand curve to the left.
- D. An oligopolist is similar to a monopolist, and as the quantity demanded for its product increases, the demand curve for that firm shifts to the right.

Correct Answer: A

Explanation:

Choice "a" is correct. In an oligopoly, each firm faces a "kinked" demand curve. Others will match price cuts, but ignore price increases. The "kink" is at the prevailing price. Best real world examples of oligopoly are the airline and auto industries.



Choice "b" is incorrect. An oligopolist's demand curve is linear but "kinked." Above the "kink," demand is highly elastic. Below, very inelastic.

Choice "c" is incorrect. An oligopolist cannot sell at any price. There is no "saturation point."

Choice "d" is incorrect. A change in quantity demanded indicates a movement along the demand curve, not a shift in the curve.

### QUESTION 3

The effect of a material transaction that is infrequent in occurrence but not unusual in nature should be presented separately as a component of income from continuing operations when the transaction results in

a:

A.

Option A

B.

Option B

C.

Option C

D.

Option D

	<u>Gain</u>	<u>Loss</u>
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

Correct Answer: A

Explanation:

Choice "a" is correct, Yes - Yes. A material transaction that is "infrequent in occurrence" but not "unusual in nature" should be presented separately as a component of "income from continuing operations" when the transaction results in a gain or loss.



#### QUESTION 4

A partner's interest in specific partnership property is:

	<u>Assignable to the partner's individual creditors</u>	<u>Subject to attachment by the partner's individual creditors</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

B. Option B

C. Option C

D. Option D

Correct Answer: D

Explanation:

Choice "d" is correct. No - No.

Rule: A partner's interest in specific partnership property is neither assignable to the partner's individual creditors nor is it subject to attachment by the partner's individual creditors.

Choices "a", "b", and "c" are incorrect, per the above rule.

#### QUESTION 5

Before reporting on the financial statements of a U.S. entity that have been prepared in conformity with another country's accounting principles, an auditor practicing in the U.S. should:

- A. Understand the accounting principles generally accepted in the other country.
- B. Be certified by the appropriate auditing or accountancy board of the other country.
- C. Notify management that the auditor is required to disclaim an opinion on the financial statements.
- D. Receive a waiver from the auditor's state board of accountancy to perform the engagement.

Correct Answer: A

Explanation:

Choice "a" is correct. Before reporting on the financial statements of a U.S. entity that have been prepared



in conformity with another country's accounting principles, the auditor practicing in the U.S. should understand the accounting principles generally accepted in the other country.

Choice "b" is incorrect. The auditor practicing in the U.S. would be able to report on the financial statements of the U.S. entity without obtaining certification in the other country.

Choice "c" is incorrect. The auditor need not disclaim an opinion on the financial statements prepared in conformity with another country's accounting principles.

Choice "d" is incorrect. A waiver to perform the engagement is not necessary.

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